Greek government crisis triggers new round of budget cuts in Europe

Christoph Dreier
8 November 2011

As the EU presses for a new government in Greece to prepare further austerity measures, it is becoming clear that the government crisis and the attacks on the working class in Greece were the prelude to a new round of social cuts throughout Europe.

The same script is being used in all the other European countries. After giving money to bail out the banks, governments take it back from the people through austerity measures. As this leads to continued collapse in workers' living standards and thus in consumer demand, further economic downturns, and therefore a further decline in tax revenues, the ruling class then demands more cuts. The rating agencies help fuel this vicious cycle by downgrading individual countries' debts.

After Portugal announced further austerity measures and Italy agreed on massive social cuts and its observation by the International Monetary Fund (IMF) last week, Ireland and France followed suit, announcing further cuts in their already-truncated budgets.

Representatives of governing parties throughout Europe are presenting the measures as the result of blunders in national policy, and the fact that the population has lived beyond its means. This is a lie and a fraud. The cuts represent above all the anti-democratic transfer of wealth from the working class into the hands of the financial oligarchy of Europe.

French Prime Minister François Fillon unveiled his government's new austerity measures on Monday. They come on top of 12 billion in tax increases and spending cuts announced in August and are slated to achieve a total of €65 billion in savings by 2016. Fillon stated that these would be the "toughest austerity measures since 1945."

While the governments in August claimed they were placing the burden of the cuts on the wealthy and the corporations, the latest announcements make clear that these were only cosmetic measures aiming to hide further attacks on the workers.

The announced cuts will heavily hit the working class. The increase in the lower-tier value-added tax from 5.5 to 7 percent for many goods and services will raise 1.8 billion euros next year; tax bracket adjustments will raise a further €1.7 billion. Another €1.1 billion revenue boost will come next year from a 5 percent increase of the tax rate on certain businesses. Unlike the other cuts, however, this measure is to be temporary.

Aside from this, the French government is planning to curb health spending to save € 1.2 billion. The age legally required to claim a full pension will be raised to 62 in 2017 instead of 2018, which will lead to the imposition of further penalties on workers forced into early retirement—and thus a massive decline in pensions.

Fillon said the new measures would ensure that France would have to carry out its promise to cut its budget deficit from 5.7 percent of GDP to 4.5 percent next year, and 3 percent in 2013. In October the government revised its estimates for French economic growth from 1.75 to 1 percent per year, for both 2011 and 2012.

In the light of these figures and the French engagement in the European bailout fund (European Financial Stabilization Facility, EFSF), Moody's Investors Service warned on October 17 that the outlook on France's AAA credit rating is under pressure. French President Nicolas Sarkozy reacted to this by announcing further austerity measures, now presented by his prime minister.

Last Friday Irish Prime Minister Enda Kenny announced further budget cuts in his country. Over the next four years, the government wants to reduce the state budget by € 12.4 billion, or 8 percent of Ireland's yearly GDP. The austerity measures to be detailed in the budget on December 6 will involve at least €1.6 billion in tax increases and €2.2 billion in spending cuts.

After the Irish government spent an estimated € 70 billion to bail out the banks, it now finds itself dependent on rescue packages from the EU and the IMF. In exchange the Irish government has had to promise to cut the budget deficit to 3 percent of GDP in 2015. The planned austerity measures aim to meet these demands.

As in other European countries, the previous austerity measures in Ireland led to a massive decline in consumer spending. New workers taking a job can expect to earn about 10 to 30 percent less than in 2008. According to the Eurostat statistical office, the official unemployment rate rose from 4.5 percent in September 2007 to 14.2 percent in September 2011. The real figure is probably much higher.

A new property tax, tax credit reductions, petrol price hikes, along with welfare and capital spending cuts led to a situation in which the government expects consumer demand to decline a further one percent next year, bucking previous projections of stagnation. For that reason the government lowered its 2012 growth projection from previous expectations of 2.5 percent to just 1.6 percent.

Last October the Spanish government had already stated that it faces a higher budget deficit than previously projected due to high unemployment—which increased to 21.2 percent—and low economic growth. Portuguese Finance Minister Vitor Gaspar announced on October 17 that there will be further budget cuts in his country, including massive wage cuts for public-sector workers and increases in taxes affecting the population, such as sales taxes.

On Monday evening Italian Finance Minister Giulio Tremonti presented a concept to his European colleagues of "how and when" his government plans to implement planned austerity measures. Last week Prime Minister Silvio Berlusconi already allowed the IMF to send to send a mission to Italy to oversee his government's efforts to impose social cuts on the working class. Brutal attacks on workers' social and democratic rights will undoubtedly result.